



3501 North 24<sup>th</sup> Street, Phoenix, Arizona 85016 | (602) 957-7770 | [www.AZGOP.org](http://www.AZGOP.org)

December 4, 2012

Tom Hintermister  
Assistant Staff Director/ Audit Division  
Federal Elections Commission  
Washington, DC 20463

**REL    *Response of the Arizona Republican Party to Preliminary FEC Audit Findings***

Dear Mr. Hintermister:

This correspondence constitutes the response of the Arizona Republican Party (the "Party") to the interim audit report of the Federal Election Commission (the "FEC") concerning the Party's federal activities over the period January 1, 2009 to December 31, 2010.

The Party accepts the FEC audit staff's recommendations regarding Finding 1 and 3. We look forward to receiving additional, specific recommendations regarding which reports and the necessary correcting entries the Party is to make to bring our reports into full compliance. Regarding Finding 1, we note that during the period of this audit the Party contracted with a recognized accounting firm, that held itself out as qualified to assist the Party with its FEC obligations, to facilitate timely and accurate reporting. In the first quarter of 2012 the accounting firm notified the Party that the sole individual the firm employed to undertake FEC work was no longer with the firm and had not been for some time. That accounting firm subsequently terminated any work it was doing regarding FEC activities. We understand the Party is responsible for the integrity of all of its reports, at the same time the Party was relying on the professional advice of a recognized expert to address the specifics of issues such as is addressed in Finding 1. The Party's reliance on the quality and integrity of the advice it received from the firm was obviously misplaced. We have since engaged the services of another firm to provide us with this assistance and we believe that this new service provider is technically competent and appropriately meeting our needs.

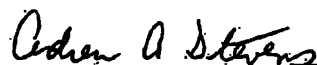
Finding 3 is largely focused on the timeliness of the Party's reporting of its financial obligations to third parties. The Party is confident that it did timely report accounts *received* and payable more than 30 days. In reporting its third party obligations the Party can only report the information it has in its possession and when a vendor fails to submit their bills weeks or

months after the services are rendered there is not much we can do about the matter. It was our experience with the debts in question that when the invoice did ultimately arrive the vendor would accurately report the date services were rendered while the invoice might not have come into the Party's possession for several weeks after the fact. We also note that nearly every debt the audit determined was not timely reported was also a debt the Party disputed with the vendor. We acknowledge that the FEC's regulations require that the claimed debt be reported regardless of whether a payment dispute exists or not. We also note that this rule has the effect of overstating the Party's true debts as these accounts are subsequently compromised to a much lower payment amount.

The Party has previously provided your on-site audit staff with all of the evidence in its possession to substantiate our classification of various expenses as non-allocable contributions, as discussed in Finding 2. The preliminary finding apparently concludes that the evidence already supplied is insufficient. Therefore, the Party has asked each of the identified candidates and their consultants to provide whatever additional information they have in their possession to further support the non-allocable contribution classification. Copies of the letters requesting the candidate committee's assistance are attached for your reference. As these committees provide the Party with information we will promptly forward it on to the FEC. In our communications with the candidate committees we have already indicated that in the absence of any additional information the Party will be requesting reimbursement for excessive contributions. We will keep our FEC Audit Division contacts informed of the progress of our dialogue with the candidate committees.

The Party accepts Findings 1 and 3. We will promptly make the correcting entries as soon as the FEC provides specific direction regarding which reports and what entries are appropriate. We have asked the relevant candidate committees for their assistance in addressing Finding 2 concerning excessive contributions. We will promptly provide the FEC with any additional information we receive.

Sincerely,



Andrew A. Stevens

Arizona Republican Party Treasurer

Enclosures

cc: T. Morrissey  
T. Verschoor  
L. Miller



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December 3, 2012

Joyce Schweikert  
Treasurer  
Schweikert for Congress  
15749 E. El Lago Blvd.  
Fountain Hills, AZ 85268

Blue Point, LLC  
8707 E. Vista Bonita #240  
Scottsdale, AZ 85255-3214

**Via Certified Mail, Return Receipt Requested**

**RE:    *Information Request for FEC Audit of the Arizona Republican Party***

Ladies and Gentlemen:

The Federal Elections Commission (the "FEC") has undertaken an audit of the activities of the Arizona Republican Party (the "Party") for the period January 1, 2009 through December 31, 2010. The FEC has issued a preliminary audit report and among their findings they believe the Party has provided insufficient documentation to establish that various direct mail activities the Party engaged in with Schweikert for Congress are "non-allocable contributions."

The Party has provided the FEC with any and all documentation regarding these activities in its possession. We request that you forward to me any documentation you may have among your books and records of the **2010 election cycle** to supplement what we have provided the FEC. Specifically, Federal law requires that there be "significant volunteer involvement" with any activities designated as non-allocable. The significant volunteer involvement is customarily documented with volunteer sign in sheets and pictures of volunteers handling the materials and delivering them to the Post Office. We hope that with the additional documentation your campaign might provide we can satisfy the FEC that the activities in question are non-allocable contributions. To that end, we are also providing a copy of this request to the consulting firm we believe was primarily responsible for these activities on behalf of your campaign. Please do your best to consider any source that may have retained the information required by the FEC.

In the event that we are unable to satisfy the FEC that the activities were non-allocable the result would be an excessive in-kind contribution from the Party to the Schweikert Campaign. The FEC preliminary finding is that the excessive in-kind contribution would be \$160,532. Aside from any penalties which may be assessed for the giving and receipt of an excessive in-kind contribution, Federal law also requires the Party to use its best efforts to obtain a refund of the contribution amount over the legal maximum.

If you have any questions, comments or concerns about this request please contact me at 480.440.1467 or the Party's general counsel, Lee Miller at 602.300.5829. We appreciate your prompt attention to this request.

Sincerely,



Andrew A. Stevens  
Treasurer  
Arizona Republican Party

cc: T. Verschoor  
L. Miller



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December 3, 2012

Kristen Smith  
Treasurer  
Kelly for Congress  
9325 N. Centipede Ave.  
Tucson, AZ 85742

Lincoln Strategy Group  
80 E. Rio Salado Parkway #817  
Tempe, AZ 85281

**Via Certified Mail, Return Receipt Requested**

**RE:***Information Request for FEC Audit of the Arizona Republican Party*

**Ladies and Gentlemen:**

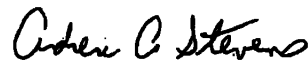
The Federal Elections Commission (the "FEC") has undertaken an audit of the activities of the Arizona Republican Party (the "Party") for the period January 1, 2009 through December 31, 2010. The FEC has issued a preliminary audit report and among their findings they believe the Party has provided insufficient documentation to establish that various direct mail activities the Party engaged in with Kelly for Congress are "non-allocable contributions."

The Party has provided the FEC with any and all documentation regarding these activities in its possession. We request that you forward to me any documentation you may have among your books and records of the **2010 election cycle** to supplement what we have provided the FEC. Specifically, Federal law requires that there be "significant volunteer involvement" with any activities designated as non-allocable. The significant volunteer involvement is customarily documented with volunteer sign in sheets and pictures of volunteers handling the materials and delivering them to the Post Office. We hope that with the additional documentation your campaign might provide we can satisfy the FEC that the activities in question are non-allocable contributions. To that end, we are also providing a copy of this request to the consulting firm we believe was primarily responsible for these activities on behalf of your campaign. Please do your best to consider any source that may have retained the information required by the FEC.

In the event that we are unable to satisfy the FEC that the activities were non-allocable the result would be an excessive in-kind contribution from the Party to the Kelly Campaign. The FEC preliminary finding is that the excessive in-kind contribution would be \$214,457. Aside from any penalties which may be assessed for the giving and receipt of an excessive in-kind contribution, Federal law also requires the Party to use its best efforts to obtain a refund of the contribution amount over the legal maximum.

If you have any questions, comments or concerns about this request please contact me at 480.440.1467 or the Party's general counsel, Lee Miller at 602.300.5829. We appreciate your prompt attention to this request.

Sincerely,



Andrew A. Stevens

Treasurer

Arizona Republican Party

cc: T. Verschoor

L. Miller



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December 3, 2012

Dr. Brian Dowley  
Treasurer  
Gosar for Congress  
PO Box 2991  
Florence, AZ 85132

Coleman Dahm & Associates  
4715 North 32d Street  
Phoenix, AZ 85018

**Via Certified Mail, Return Receipt Requested**

**RE:    *Information Request for FEC Audit of the Arizona Republican Party***

Ladies and Gentlemen:


The Federal Elections Commission (the "FEC") has undertaken an audit of the activities of the Arizona Republican Party (the "Party") for the period January 1, 2009 through December 31, 2010. The FEC has issued a preliminary audit report and among their findings they believe the Party has provided insufficient documentation to establish that various direct mail activities the Party engaged in with Gosar for Congress are "non-allocable contributions."

The Party has provided the FEC with any and all documentation regarding these activities in its possession. We request that you forward to me any documentation you may have among your books and records of the **2010 election cycle** to supplement what we have provided the FEC. Specifically, Federal law requires that there be "significant volunteer involvement" with any activities designated as non-allocable. The significant volunteer involvement is customarily documented with volunteer sign in sheets and pictures of volunteers handling the materials and delivering them to the Post Office. We hope that with the additional documentation your campaign might provide we can satisfy the FEC that the activities in question are non-allocable contributions. To that end, we are also providing a copy of this request to the consulting firm we believe was primarily responsible for these activities on behalf of your campaign. Please do your best to consider any source that may have retained the information required by the FEC.

In the event that we are unable to satisfy the FEC that the activities were non-allocable the result would be an excessive in-kind contribution from the Party to the Gosar Campaign. The FEC preliminary finding is that the excessive in-kind contribution would be \$8,873. Aside from any penalties which may be assessed for the giving and receipt of an excessive in-kind contribution, Federal law also requires the Party to use its best efforts to obtain a refund of the contribution amount over the legal maximum.

If you have any questions, comments or concerns about this request please contact me at 480.440.1467 or the Party's general counsel, Lee Miller at 602.300.5829. We appreciate your prompt attention to this request.

Sincerely,



Andrew A. Stevens

Treasurer

Arizona Republican Party

cc: T. Verschoor

L. Miller





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Mr Hache:

1/18/13

In our previous communication regarding Finding 2 of the interim Audit Report of the Arizona Republican Party ("AzGOP") we described the expenditures that are the subject of that Finding as non-allocable contributions. The AzGOP believes that these expenditures meet the statutory and regulatory definition of "volunteer exempt activity" as that exemption is described at 2 USC §431(8)(B)(ix) and 431(9)(B)(viii).

The AzGOP understands that the exemption does not apply to "direct mail." We acknowledge that all of the expenditures that are the subject of Finding 2 were for communications distributed via the United State Postal Service. Nonetheless, we do not believe that any of expenditures constitute "direct mail" as the Federal Elections Commission ("FEC") has defined the term. "Direct mail" "means any mailing(s) by a commercial vendor or any mailing(s) made from commercial lists." 11 C.F.R. § 100.87(a). In the context of a "volunteer mail program," this means that mailed materials must be "distributed by volunteers and not by commercial or for-profit operations." 11 C.F.R. § 100.87(d). Mailers must also be distributed to the state or local party's own existing mailing list, as opposed to a list purchased or rented from a vendor. All of the Finding 2 mail expenditures were distributed using lists of addressees owned and maintained by the AzGOP. All of the Finding 2 mail expenditures had a significant volunteer component.

Counsel has advised us that there is no explicit, unequivocal statutory or regulatory guidance as to the minimum requirements for acceptable volunteer participation. The legal guidance we have on this issue draws heavily on a review of various FEC Matters Under Review on this topic. For example, it is our understanding that mail printed by a commercial printer does not disqualify the expenditure from fitting into the rubric of volunteer exempt activity. Factual and Legal Analysis of MUR 5841 (Arizona Democratic Party).

For each of the expenditures in question the AzGOP supplied a commercial printer with an address list drawn from the Party's own comprehensive list of registered Arizona Republicans as well as a graphical design for the mail item. The printer's equipment manufactured the mail pieces, including printing the AzGOP's bulk rate permit number on each piece, and addressed them. The printer's equipment sorts groups of the mail piece according to USPS zip codes. AzGOP volunteers were responsible for binding groupings of any particular mail piece, placing them into USPS bags or trays in accordance with USPS

regulations and delivering the sorted mail to the relevant USPS facility. It is our view that the level of AzGOP volunteer involvement matches or exceeds the level of volunteer involvement discussed in MURs 5598 (Utah Republican Party) and 5841 (Arizona Democratic Party). Our volunteer involvement generally matches with the requirements of the Proposed Interim Enforcement Policy on Volunteer Activities issued by the FEC on March 11, 2010.

In preparing this response the AzGOP has two challenges. The first is the lack of clear direction from the FEC as to the minimum level of participation required to establish adequate volunteer involvement in a mail program. Our understanding of the minimum criteria is set out above and the AzGOP believes it has already provided the FEC with sufficient evidence of volunteer involvement regarding all expenditures in support of Congressman Schweikert to establish that those expenditures should not be treated as contributions by the AzGOP to the Schweikert 2010 campaign.

In addition to the Schweikert expenditures Finding 2 also covers expenditures in support of the Gosar 2010 and Kelly 2010 campaigns. As we discussed while you were conducting your field work and in our last written response, the AzGOP experienced a complete change in its leadership and staffing in January of 2011. Our second challenge is that, during this transition, records of previous campaign activities were discarded. This includes the documentary evidence of volunteer involvement in the Gosar and Kelly expenditures. We have contacted the principals in those two committees and requested that they provide us with any documentation they may have retained regarding these activities. They have none. We have now requested that these individuals who, in 2010, were responsible for these expenditures provide us with affidavits attesting to their understanding of the requirements to meet the volunteer exemption to the contribution rules, that the expenditures did in fact meet these requirements, that they contemporaneously collected evidence of the volunteer participation and that this evidence was on file at the AzGOP during the 2010 election cycle. We acknowledge this record keeping deficiency but we are confident that none of the expenditures discussed in Finding 2 constitute contributions, let alone excessive contributions, to the committee cited there.

You have also asked why this volunteer exempt activity was reported on Schedule F rather than Schedule B. During the time period of this audit the AzGOP relied on personnel from the Salt Lake City office of a nationally recognized accounting firm to prepare and file all of our FEC reports. Here in the AzGOP office we maintained our financial records using standard small business accounting software. On a regular basis we would provide our data and reports to our accountants in Salt Lake City and they would use the information to prepare the appropriate FEC reports. Our accounting staff and the accounting firm's personnel were in constant communication but we relied entirely on the accounting firm's individuals, who held themselves out as experts in FEC reporting matters, to create and transmit all of the information that was reported to you. As we previously discussed, it has subsequently become apparent that the accounting firm was experiencing significant internal challenges in this portion of its

practice. Those issues were never brought to our attention and we trusted the firm to be filing the right reports at the right time. If you will advise us which amendments are necessary to properly report these volunteer-exempt expenditures we will promptly file the amendments.

A concern was raised whether the AzGOP transferred some or all of the amount it is permitted to expend as a coordinated contribution to the National Republican Congressional Committee ("NRCC"). We have spoken with the individuals who served as the Party's chairman and treasurer during the 2010 election cycle and they have no recollection of signing any documents making such a transfer to the NRCC. To the extent such a transfer may have occurred the documentation memorializing it would have been kept with the documentation of the volunteer participation in the expenditures. As noted above, those documents were discarded in early 2011.

Please let us know of any report amendments that may be necessary to properly account for the volunteer-exempt expenditures that are the subject of Finding 2.

Respectfully,

*Andrew A. Stevens*